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C O N F I D E N T I A L SECTION 01 OF 02 CANBERRA 000920

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TAGS: SENV ECON ETRD AS

SUBJECT: CLIMATE CHANGE LEGISLATION: INDUSTRY MOSTLY
ONBOARD?

REF: A. CANBERRA 893
1B. CANBERRA 860
1C. CANBERRA 774

Classified By: Political-Economic Counselor Edgard Kagan, Reasons 1.4(b)
(d).

11. (C/NF) Summary: Recent discussions with Australian companies and civil society groups suggest they largely accept that the government will succeed in passing climate change legislation this year (Ref A). While most interested parties appear to believe that the Carbon Pollution Reduction Scheme (CPRS) will pass in November, many still have major concerns about the negative impacts the CPRS may have on their bottom line. End Summary.

12. (SBU) Embassy and ConGen Econoffs recently traveled through the states of Victoria and Tasmania to meet with industry and green groups to hear their opinions on the CPRS, Australia's national cap-and-trade legislation. The bulk of opinion indicates that companies and civil society groups are preparing for the impacts of the CPRS while working with the Opposition to push key amendments.

CPRS Costs To Hurt Nyrstar

13. (C/NF) Econoff visited Nyrstar, a Belgian company that took over the former Zinifex zinc production facility on the Derwent River in Tasmania on September 9. The company, which employs several thousand workers and accounts for 21% of the state's export earnings, appears fatalistic about the eventual passage of the CPRS. Deputy General Manager Steve James explained that energy constitutes 38% of the company's costs, and that efficiency gains are not going to significantly alter that number. The company lobbied successfully for inclusion in the CPRS Emissions Intensive Trade Exposed (EITE) provisions, under which it will receive 90% of its required emissions permits free from the government.

14. (C/NF) Even as an EITE, however, Nyrstar will still face an approximate 10% price hike over existing costs, not including higher energy prices. Chinese zinc manufacturers are their major competition, and will not face similar costs. James asked Econoff pointedly if China was going to do

anything to combat climate change that would raise their costs. In the likely event that the PRC did not take steps in the near term to match rising energy prices in Australia under the CPRS, James said the company could decide that the global zinc price was no longer sufficient to justify continued operations in Tasmania. James explained that this would not be a decision to move to China seeking lower rents, but rather a decision to shut down in the face of unbeatable Chinese competition.

A Corporate Pivot?

¶15. (C/NF) British Petroleum Australia Environmental Affairs Manager Fiona Wild told Econoff on September 22 that the company, and a majority of their industrial counterparts, wanted the CPRS passed in November. Wild said there had been a "pivot" in between June and July among most of the major energy and industrial players to the recognition that the CPRS, while not optimal, was the least worst option available. According to Wild, about 70% of the companies BP confers with are working with the opposition to draft reasonable amendments in an attempt to secure the last key concessions from the government.

¶16. (C/NF) Wild said the opposition disunity over the CPRS was disheartening to many industry players, but she felt the odds of the CPRS passing in November, with appropriate amendments to deal with agriculture, coal, and extending protections for EITEs, were about 3 to 1 in favor. A big concern is that the more radical opposition elements would agree to vote for the

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CPRS but only if it included major changes that the government would have to reject. BP is also watching developments in the U.S. closely and has told the GOA that the company does not want a "Waxman-Markey (American Clean Energy and Security Act) bill for Australia," as it does not fit Australian economic conditions. Patrick Coleman, International Officer at the Business Council of Australia told Melbourne Econoff and Australia Desk Officer Jane Carpenter-Rock on October 3 that big business in Australia is resigned to the fact that climate change legislation will come to Australia. The trick now is getting it through reasonably quickly so companies no longer have to put off investment decisions due to uncertainty surrounding the CPRS.

Not All On Board

¶17. (C/NF) While BP and its cohorts are moving toward accepting a modified CPRS, ExxonMobil is not. Gemma Allman, ExxonMobil's government relations executive in Australia, told Melbourne Econoff on September 22 that the company remains very nervous about the CPRS. As a multinational, Exxon is already considering the possibility of bringing in more resources from outside Australia and cutting back on investments if costs rise too much here. She referred to the CPRS as an "export tax." (Comment: This term is straight out of the Coalition's playbook; Allman worked for former Liberal Party Prime Minister John Howard's Agriculture Minister for 11 years. End Comment.)

Forestry A Key To Unlocking Support?

¶18. (C/NF) In Hobart, Econoff addressed a group of environmental and conservation NGOs, including WWF International, the Humane Society, The Wilderness Society, and Environment Tasmania. The Humane Society International's Alistair Graham told Econoff that the Liberal party had already decided to support the CPRS and that he is helping the party draft key amendments on forestry issues that would build support in the party room. Former Tasmanian Greens leader Peg Putt echoed this view, saying that the political

cost of continuing to delay or undermine the CPRS outweighs the cost of passing the legislation. Tasmanian groups feel they are making progress in securing support from the Rudd government to include protection of native forests as a principle in Australia's UNFCCC negotiating position.

¶ 9. (SBU) Comment: Views from industry and civil groups appears to echo those of our government and opposition contacts. The CPRS is not universally welcome, may have immediate and costly impacts, but most seem to believe it will become a reality. How the bills are amended and whether the changes can further minimize disruption for Australia's economic future remain critical decisions for the GOA. End Comment.

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